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STATE FOR IO FOR TERRY MILLER; IO/EDA FOR BEHREND AND
KOTOK
USDA FOR BOST AND BUTLER; FAS FOR REICH AND HUGHES
USAID FOR FFP LANDIS AND SKORIC

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SUBJECT: RESOURCES AND THE FAO: ACHIEVING RESULTS AND
COMMON CAUSE

Summary

11. Ten years of zero nominal growth budgets at FAO have resulted in a greatly downsized organization. FAO is more efficient and modernized in many respects. But there is no evidence of an increased prioritization or significant improvement in the organization's effectiveness. Simply put, FAO has no member state mandate to achieve a more focused program within the parameters of agreed priorities. Despite repeated governing body efforts, there has not been, nor is there likely to be, an agreed set of priorities within the status quo arrangement. To break this logjam requires a different approach from merely tight budgets: one predicated on improved member relationships, greater confidence, and the use of political tools tailored to facilitate results in the zero-sum program scenario.

12. The independent external evaluation (IEE) currently being developed by an intersessional working group of the FAO Council seems to have promise in this latter regard. The IEE has already produced improvements in the political atmosphere among the major regional groupings. US leadership in this area is now welcomed and even expected, and our opinions widely respected. Nevertheless, the consensus remains fragile and is ever susceptible to doubt and suspicion. We are careful to avoid the perception that we are promoting the evaluation as a means to justify further budget cuts.

Ten Years of Zero Nominal Growth

13. As a result of ten years of zero nominal growth (ZNG) or near-ZNG budgets, FAO's regular assessed budget dropped in real terms nearly 25 percent. Some of FAO's activity in selected areas was sustained by expanding extra-budgetary donations that in 2004-5 may reach \$650 million. Along with various efforts at reform and modernization, the organization responded to their tight budgets by cutting staff over this period from 5,560 positions to 3,972, a 29 percent drop. In making these cuts, FAO targeted management: director-level staff dropped 27 percent while junior-level professionals increased 42 percent. Most of the positions lost came from headquarters: the ratio of field to headquarters staff rose from 18.5 to 27.3 percent over the period.

14. FAO's weak financial position also stems from acute cash flow problems mainly generated by Japan's and the US's practice of paying contributions in the last quarter of the calendar year. Over 40 percent of the annual revenue is arriving after over 75 percent of the expenditures have already been incurred. With fewer reserves available, FAO is now looking at ever-earlier borrowing of ever-larger amounts: as much as \$40 million as early as August in CY 2005. Aggravating the US's awkward position as the one responsible for a good deal of the problem is the prohibition against US funding of interest associated with external borrowings.

15. The organization has taken a number of measures to absorb the shortfalls, such as outsourcing, office automation, and cutting international travel. Most of its programs have also experienced a continued series of budget reductions.

The Dynamics of Focus

16. The ZNG policy, of course, was engineered as a belt-tightening exercise meant to motivate streamlining, greater efficiency, and greater focus. We, and many

other large contributors, saw budget stringency as a badly needed incentive for tackling reforms the organization had not achieved on its own. On the streamlining and efficiency fronts, there are many signs our policy worked. On focus and prioritization, it probably failed. After a decade of negative real growth in the FAO budget, we see little evidence that these budget stringencies have led to prioritization and greater excellence in the organization.

17. What happened, and is happening, is that the

organization, as in any bureaucratic process including our own, tended to make resource cuts across the board rather than through eliminating programs. The fault lay more in member state dynamics than in the Secretariat, in that different perspectives between the G77 and OECD groups prevented reaching a consensus on prioritization. The Secretariat therefore had no member-state mandate to make the changes necessary to enhance focus and prioritization. This dysfunction emanated from political disharmony among the member states on priorities. A revealing analogy would be one where Congress mandated an annual cut in the State Department budget, but where each party and committee had its own program they wanted to save from elimination.

18. With that jagged political interface, the Secretariat's latitude for targeted cuts was severely

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reduced, if not eliminated. Given the organizational parameters of the question, further cuts in and of themselves cannot be expected to achieve better prioritization. We can set budget levels that are justifiable from the standpoint of US policy, but we will not force prioritization by doing so. We have long passed that point, and no one in Rome, including our best allies, looks to continued budget stringencies to remedy the problem. It is an unrealistic proposition to maintain any longer that continued real cuts in the budget level will lead to greater excellence. We need to employ other means.

Goals and Strategies: What Do We Want?

19. There are certainly other justifications for stringent budgets, not the least of which is the availability of resources that contributors have for FAO. But we need to drive on a separate track to get to the base of the problem that prevents FAO from achieving greater and more evenly distributed "excellence." Tight budgets for the sake of tight budgets should not logically be our goal, in and of itself.

110. If we agree that the FAO has importance for US interests and objectives, what we want from it is the most and best product from the resources we have available. If we want to make the organization better, we need to find other organizational means to address output: the program, itself; what it does well and what it does poorly; and what level of program serves American interests. We also need a political process that generates a consensus-based mandate to the organization.

The Evaluation and Budget Stringency

11. In that latter regard, the IEE is our best hope. Its measurement of the organization's impact should allow us to identify areas of comparative advantage. We will then be in a better position to work with other member states toward refocusing FAO activities on high-impact programs, improving programs that we consider desirable but whose impact has been below expectations, and eliminating much of the rest. We can use the independent external evaluation to improve the efficiency of the organization by establishing baseline observations on the effectiveness of current programs.

112. All OECD Group and most G77 permanent representations in Rome seem to want the evaluation to accomplish this valuable function. That said, as has been the case with base closings in the US, the many stakeholders will not be ready to wheel and deal on cutting programs if (1) they don't have political cover, and (2) they don't see the process as an honest give-and-take effort whose ultimate aim is a better, more effective FAO. The very process of launching the evaluation has benefits of its own to the extent that it generates closer collaboration between G77 countries and

ourselves. "Confidence" is the sine qua non of any successful evaluation. If the permanent representations believe we are working toward a mutually agreed objective, albeit from different perspectives, we might be able to establish a binding prioritization that will reshape the organization in a more efficient manner. We have already made great progress unifying member states

in a sense of common cause.

13. There are many lingering fears among both G77 and OECD member states that the reason the US is pushing the evaluation is to find justification for further resource cuts. We have argued against that notion, saying that the evaluation is to provide insight into how resources might best be used, without direct reference to the volume of resources now employed. Although over time there will be indirect implications for resource levels (one way or the other), any explicit, direct linkage expressed by us now would jeopardize the fragile consensus that holds the evaluation process together at this early stage.

End Note

14. The IEE initiative is the best tool we have at the moment to deal with the member state impasse on prioritization. That is not to say that we should not pursue a policy of budget stringency, nor is it the case that no countries support continued fiscal restraint. Our allies on the ZNG front are fewer, but still include Australia and Japan (taken together, these countries' contributions and ours amount to 43% of the assessed budget). To the extent we do continue to push for budget stringency, however, we should be transparent and straightforward, like the Japanese are, that this is the amount of money we have available from Congress. That's that.

15. We should remember, however, that promoting a ZNG stance today differs vastly from taking such a position a decade ago. The knife has already touched bone, and further cuts are likely to result in possibly crippling cutbacks in programs important to us. We should also remain aware of additional costs associated with forced downsizing, such as the 10 million dollars the organization expects to need for the termination of 190 positions that a ZNG budget for 2006/7 is estimated to entail.

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